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C O N F I D E N T I A L SECTION 01 OF 02 BAKU 000722

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USDOE FOR FE - SWIFT AND OS - WILLIAMSON  
USTDA FOR DAN STEIN

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TAGS: EPET ENRG PREL EWWT EINV AJ KZ

SUBJECT: LATEST ROUND OF AZERBAIJAN-KAZAKHSTAN IGA TALKS  
CONCLUDES, MARINE TRANSPORT ONLY REMAINING MAJOR ISSUE

REF: A. BAKU 663  
    1B. BAKU 704  
    1C. BAKU 685

Classified By: Charge d,Affaires Jason P. Hyland, reasons 1.4 (b), (d) and (e).

¶1. (C) SUMMARY. ConocoPhillips Russia/Caspian Transportation Manager John Dabbar and executive Steven Beck briefed Energy Officer May 6 on the just-concluded round of negotiations over the Azerbaijan-Kazakhstan Inter-Governmental Agreement (IGA) for trans-Caspian oil transport. While "double taxation" is no longer an issue, Azerbaijan seems to want to defer discussion of marine transportation from the IGA to follow-on Host Government Agreements (HGAs). In response, the north Caspian producers argue that an IGA that does not address marine transportation is worthless, as that is the only aspect of the project that is truly "intergovernmental."

Beck voiced misgivings about the idea of Kazakhstan as a gas exporter, pointing out that much of the country's gas is already spoken for. Beyond this remaining issue, there seems to be little else standing in the way of a final agreement, and both GOAJ and GOKZ officials have publicly stated that they believe the IGA will be finalized and signed very soon.

END SUMMARY.

¶2. (C) According to Dabbar and Beck, the "double-taxation" issue discussed in Ref A, under which Azerbaijani Finance Minister Sharifov wanted to assess both a transit fee and a profit-tax on the oil entering BTC, seems to be "evaporating." The Azerbaijani and Kazakhstani sides have decided to refer the issue to their respective tax experts and the Azerbaijani side is no longer pushing Sharifov's idea.

¶3. (C) The issue of the "Marine Transporter" continues to be central to investor concerns about the IGA. Four weeks or so ago, said Dabbar, Azerbaijan specifically wanted the IGA to name state shipping company CASPAR as the exclusive Marine Transporter for the project. The international investors have taken a different position, saying that they must have the right to own the ships. The investors also want the right to select the Marine Transporter, based on open criteria acceptable to both Azerbaijan and Kazakhstan.

¶4. (C) Dabbar and Beck noted that while the IGA no longer enshrines CASPAR as the Marine Transporter, it does not

include the language of the investors either - in fact, the current draft no longer addresses the issue of the Marine Transporter. Azerbaijan seems to want to defer the issue to the follow-on Host Government Agreements (HGAs). The international investors are not happy with this position. Beck pointed out that the only "international" part of the project is the transportation of oil from Kazakhstan to Azerbaijan by the Marine Transporter. If the IGA does not address the Marine Transporter issue, he said, there is no point in having an IGA in the first place.

¶ 15. (C) Dabbar and Beck said that the above point had been made clear to the Azerbaijani side before the talks adjourned. The talks are expected to resume in about two weeks or so - perhaps in Almaty, perhaps in London or Paris, or on "neutral ground" in Istanbul. Dabbar noted that the Kazakhstani side is led by Kairgeldy Kabyldin of KazMunaiGaz (KMG), and Kabyldin seems to be a fully-empowered negotiator. SOCAR Vice President Elshad Nasirov leads the Azerbaijani side, but Dabbar says he seems "more like a mediator than a negotiator" - he appears not to be empowered to make final decisions, but only to carry them back to some higher lever. Dabbar and Beck emphasized that they see Nasirov as a good interlocutor, and that he is by far the best member of the Azerbaijani team - "when he leaves the room, it all falls apart" as various SOCAR lawyers and others "spout off without knowing what they are talking about."

¶ 16. (C) Nasirov alluded to industry concerns about the Marine Transporter issue in a separate meeting with Energy Officer. Nasirov said that the Azerbaijani side wants to move the issue to the HGA in the interest of completing the IGA sooner, but that industry representatives want the Marine

BAKU 00000722 002 OF 002

Transporter discussed in the IGA. Nasirov noted that while the international investors want the right to own the ships, SOCAR's understanding is that the investors will definitely have the right to operate the ships. Nasirov hinted at a possible compromise when he said SOCAR's central concern is that there be an "equal standard" applied to all possible owner-operators. SOCAR does not want to see possible owner-operators unfairly advantaged or disadvantaged.

¶ 17. (C) As an interesting coda, Beck mentioned his discomfort with talk about exporting gas from Kazakhstan. Beck said that what gas exists in Kazakhstan is being used for reinjection, the petrochemical industry, domestic use and sale to Gazprom. After all that, he said, there is little left to sell on new routes unless new discoveries are made.

¶ 18. (C) COMMENT: The Marine Transporter issue seems to be the last major issue blocking the IGA. Other issues appear to have been resolved. Azerbaijani Foreign Minister Elmar Mammadyarov gave an optimistic assessment of the negotiations following talks on the margins of the Economic Cooperation Organization summit in Baku (Ref B), and President Aliyev told us it will be signed in June (Ref C). END COMMENT.  
HYLAND